

ONE HUNDRED THIRTEENTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
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**SUPPLEMENTAL MEMORANDUM**

**May 20, 2013**

**To: Oversight and Investigations Subcommittee Democratic Members and Staff**

**Fr: Committee on Energy and Commerce Democratic Staff**

**Re: Analysis of Recent Filings of Proposed Affordable Care Act Insurance Rates in Five States**

**I. INTRODUCTION**

The Subcommittee on Oversight and Investigations will hold a hearing today on the impact of the Affordable Care Act on premiums. Last week, the Republican staff released a report predicting large premium increases under the Affordable Care Act.<sup>1</sup> A Democratic response noted the significant problems with this report: its selective use of rate information provided by insurers, its failure to incorporate key cost saving provisions, and its overlooking of the benefits of improved coverage.<sup>2</sup>

Because the final rates that will be available in the health insurance marketplaces have not been determined, the Republicans' predictions of rate increases under the Affordable Care Act have another flaw: they are inherently preliminary and speculative.

Recently, some states have begun to report the rates proposed by insurers seeking to offer plans in the 2014 health insurance marketplaces. These rate filings provide the first available real-world evidence of what premiums will look like in the Affordable Care Act health insurance marketplaces in 2014. So far, five states have released this information: Rhode Island, Vermont, Maryland, Oregon, and Washington.

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<sup>1</sup> House Committee on Energy and Commerce, Republican Staff, *Obamacare Oversight: the Looming Premium Rate Shock*, 113<sup>th</sup> Cong. (May 13, 2013).

<sup>2</sup> Memorandum from Committee on Energy and Commerce, Democratic Staff, *Investigation on the Impact on Cost of Coverage of the Affordable Care Act*, 113<sup>th</sup> Cong. (May 13, 2013).

This memorandum provides the first detailed analysis of 2014 Affordable Care Act individual market premium filings released in these states. It does not find evidence of the widespread “rate shock” predicted by Republicans. This analysis shows:

- In many cases, the Affordable Care Act appears to be reducing rates even before tax credits are taken into account. In Oregon, rates for those who stay in comparable plans offered by their current insurer are expected to fall by an average of 11% (\$470 per year) in Affordable Care Act bronze plans and 7% (\$350 per year) in Affordable Care Act silver plans. In Washington, consumers will see average reductions of 21% (\$1,120 per year) in bronze plans and 25% (\$1,875 per year) in silver plans.<sup>3</sup> In Vermont, state officials reported that premiums “are comparable to current rates paid by small employers and their employees, but the plans filed generally include better health benefits.”
- Consumers can save even more through comparison shopping on the new health insurance exchanges. Under the new law, consumers will have ready access to numerous choices for health care plans. This means that even if one insurer raises premiums, consumers can switch to a lower-priced plan that offers the same quality benefits with no risk of being denied coverage or charged a higher rate because of a preexisting condition. In Oregon, by switching to the lowest cost plan with the same level of benefits as their current plan, consumers would save an average of 32% (\$1,370 per year) for bronze plans and 24% (\$1,200 per year) for silver plans. In Washington, consumers could save an average of 33% (\$1,750 per year) in bronze plans and 36% (\$2,690 per year) in silver plans
- Competition under the Affordable Care Act is already providing significant benefits. In Oregon, the release of the proposed rates prompted two insurers who had announced rate increases to reverse themselves. These insurers immediately announced that they would be rolling the increases back and applying for lower rates. In Maryland, two new insurers are entering the market for 2014, and the state’s largest insurer, which had initially predicated a 50% rate increase, cut this increase in half due to competitiveness concerns.

The findings of this analysis are based only on the five states that have reported Affordable Care Act rates proposed by insurers for 2014. Because current insurance regulations in some states are more robust than others, there will be significant variation in the impact of the Affordable Care Act on a state-by-state basis. As additional states report 2014 premiums, they will provide additional insight into the impact of the Affordable Care Act.

There are, however, a number of factors that are not included in this analysis that are likely to cause health insurance rates under the Affordable Care Act to be even lower than described here. Most of the insurance rates released so far do not include the impact of Affordable Care Act tax credits. These tax credits will, in many cases, reduce consumer costs by

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<sup>3</sup> The Affordable Care Act classifies insurance plans based upon the total percentage of an individual’s health care costs they are expected to cover: bronze plans cover 60% of costs, silver plans 70%, gold plans 80%, and platinum plans 90%.

thousands of dollars. According to the Congressional Budget Office, 86% of individuals who receive coverage through the new Affordable Care Act marketplaces will receive tax credits, with the average credit reducing costs by over \$5,000 per year.<sup>4</sup> Tax credits available for some small businesses will reduce the cost of coverage by as much as 50%.<sup>5</sup> In addition, the states included in the analysis are still reviewing the proposed rates and may demand further reductions.

The findings in this analysis are particularly striking because they represent a significant improvement over insurance cost trends prior to passage of the Affordable Care Act. In the decade before the Affordable Care Act became law, health insurance premiums increased by an average of approximately 10% annually.<sup>6</sup>

## **II. PROPOSED 2014 AFFORDABLE CARE ACT PREMIUMS IN FIVE STATES**

To date, five states have publicly released rate filings from insurers wishing to offer policies in the health insurance marketplaces: Vermont, Rhode Island, Maryland, Oregon, and Washington.

The five states currently have varying rules on insurance, meaning they provide a good example of the range of changes expected under the Affordable Care Act.<sup>7</sup>

Vermont and Rhode Island have very limited or no competition in their individual health insurance markets, with one or two large insurers dominating their state. They also have in place many of the key reforms in the Affordable Care Act: they are currently guaranteed issue states, meaning that they require at least one insurer to offer coverage to any applicant at the same rate regardless of health status, age, or gender.<sup>8</sup> Insurers in Maryland, Oregon, and Washington are less stringently regulated. In Maryland, insurers can deny individuals coverage on the basis of a

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<sup>4</sup> Congressional Budget Office, *CBO's February 2013 Estimate of the Effects of the Affordable Care Act on Health Insurance Coverage* (Feb. 2013) (online at [cbo.gov/sites/default/files/cbofiles/attachments/43900\\_ACAInsuranceCoverageEffects.pdf](http://cbo.gov/sites/default/files/cbofiles/attachments/43900_ACAInsuranceCoverageEffects.pdf)).

<sup>5</sup> U.S. Internal Revenue Service, *Small Business Health Care Tax Credit for Small Employers* (2013) (online at [www.irs.gov/uac/Small-Business-Health-Care-Tax-Credit-for-Small-Employers](http://www.irs.gov/uac/Small-Business-Health-Care-Tax-Credit-for-Small-Employers)).

<sup>6</sup> Department of Health and Human Services, *Health Insurance Premiums: Past High Costs Will Become the Present and Future Without Health Reform* (Jan. 28, 2011) (online at <http://www.healthcare.gov/news/reports/premiums01282011a.pdf>).

<sup>7</sup> Existing state-based protections play an important role in any potential Affordable Care Act-related premium increases and help explain why there may be significant variation between states. States with little or no consumer protections in place in their health insurance markets may see a greater impact on insurance premiums than states that already have significant consumer protections.

<sup>8</sup> Kaiser Family Foundation, *Individual Market Rate Restrictions* (2013) (online at: <http://kff.org/other/state-indicator/individual-market-rate-restrictions>).

preexisting condition and charge consumers higher rates based on gender, age, and health status. Oregon and Washington are also not guaranteed issue states, but both states place some limits on the ability of insurers to either exclude individuals from coverage or charge them higher rates because of a pre-existing health condition, age, or gender.<sup>9</sup>

#### **A. Proposed Premiums in Vermont**

On April 1, 2013, Vermont became the first state in the nation to publish proposed 2014 rates for plans that will be sold through the state's health insurance marketplace: Vermont Health Connect.<sup>10</sup> State officials reported that premiums "are comparable to current rates paid by small employers and their employees, but the plans filed generally include better health benefits."<sup>11</sup>

In fact, most Vermont consumers in the individual market will receive better benefits and will pay less for health insurance than they pay today because of Affordable Care Act tax credits. For example, after accounting for premium tax credits, a couple earning \$32,000 a year would pay about \$134 per month for coverage that would have cost them \$248 per month under the state's current system.<sup>12</sup> A single adult earning \$40,000 per year would pay nearly \$300 less each month for comparable coverage under the new rates.<sup>13</sup> And a family of four earning \$75,000 per year will pay a little under \$600 per month compared to over \$900 for the lowest cost plans available today.<sup>14</sup>

#### **B. Proposed Premiums in Rhode Island**

On April 15, 2013, Rhode Island posted proposed rates for plans in its health insurance marketplace.<sup>15</sup> The state's individual market is served almost exclusively by a single issuer,

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<sup>9</sup> *Id.*

<sup>10</sup> Vermont Department of Financial Regulation, *Vermont's Health Care Reform, Licensed Vermont Health Insurance Carriers Submit Proposed Rates for Plans to be made Available through Vermont Health Connect* (Apr. 1, 2013) (press release) (online at [www.dfr.vermont.gov/insurance/preliminary-rate-filings-vermont-health-connect](http://www.dfr.vermont.gov/insurance/preliminary-rate-filings-vermont-health-connect)).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> Vermont Health Connect, *Examples: Different Scenarios for Vermonters Moving from Catamount and Traditional Health Insurance to the Exchange* (Mar. 29, 2013) (online at: [healthconnect.vermont.gov/sites/hcexchange/files/Examples\\_Different%20Scenarios%20for%20Vermonters%20Moving%20from%20Catamount%20and%20Traditional%20Health%20Insurance%20to%20the%20Exchange.pdf](http://healthconnect.vermont.gov/sites/hcexchange/files/Examples_Different%20Scenarios%20for%20Vermonters%20Moving%20from%20Catamount%20and%20Traditional%20Health%20Insurance%20to%20the%20Exchange.pdf)).

<sup>14</sup> *Id.*

<sup>15</sup> State of Rhode Island, Office of the Health Insurance Commissioner, *2013 Health Insurance Premium Rate Review Process* (online at <http://www.ohic.ri.gov/2013%20Rate%20Factor%20Review.php>).

Blue Cross Blue Shield, and the company indicated that the Affordable Care Act would have no net impact on average premiums. Blue Cross indicated that average rates were expected to increase by 18% without reform and that the same average increase could be expected in 2014.<sup>16</sup>

Blue Cross Blue Shield described the impact of Affordable Care Act programs as being net neutral; some components would increase costs, others would reduce them, with no change on balance. According to the company's application:

The [Affordable Care Act] Health Insurer Tax, Transitional Reinsurance Fee, the Patient Centered Outcomes Research Trust Fund Fee and the federal Risk Adjuster Fee combine to add 3.7% to premiums for direct pay plans. The increase in this filing as a result of new ACA taxes and fees is offset by the temporary reinsurance payments that BCBSRI projects it will receive.<sup>17</sup>

When premium tax credits are taken into consideration, average costs for individuals purchasing insurance in the state will be lower than they would pay absent the Affordable Care Act.

### **C. Proposed Premiums in Maryland**

Maryland's Insurance Administration published summary data on proposed insurance rates in the health insurance marketplace on April 23, 2013.<sup>18</sup> Blue Cross Blue Shield, the largest carrier in Maryland, proposed a 25% average increase for its 2014 individual market plans. Other plans saw smaller increases, in some cases below annual trends in the years prior to health reform; for example, Kaiser Permanente's average rate increased by only 4.3%.<sup>19</sup>

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<sup>16</sup> Blue Cross Blue Shield of Rhode Island, *2013 Form and Rate Review Processes Outstanding Filing Materials- Blue Cross Blue Shield of Rhode Island* (Apr. 22, 2013) (online at [www.ohic.ri.gov/documents/2013%20Rate%20Review%20Process/2013%20Rate%20Review%20Submissions/1\\_2013%20BCBSRI%20I%20Submission%2041513%20Final.pdf](http://www.ohic.ri.gov/documents/2013%20Rate%20Review%20Process/2013%20Rate%20Review%20Submissions/1_2013%20BCBSRI%20I%20Submission%2041513%20Final.pdf)) and *Rhode Island Blue Cross Filings Signal Rate Rises*, *The Wall Street Journal* (Apr. 15, 2013) (online at [online.wsj.com/article/SB10001424127887324030704578425313562572152.html](http://online.wsj.com/article/SB10001424127887324030704578425313562572152.html)).

<sup>17</sup> Blue Cross Blue Shield of Rhode Island, *2013 Form and Rate Review Processes Outstanding Filing Materials- Blue Cross Blue Shield of Rhode Island* (Apr. 22, 2013) (online at [www.ohic.ri.gov/documents/2013%20Rate%20Review%20Process/2013%20Rate%20Review%20Submissions/1\\_2013%20BCBSRI%20I%20Submission%2041513%20Final.pdf](http://www.ohic.ri.gov/documents/2013%20Rate%20Review%20Process/2013%20Rate%20Review%20Submissions/1_2013%20BCBSRI%20I%20Submission%2041513%20Final.pdf)).

<sup>18</sup> Maryland Insurance Administration, *Health Insurance Rate Reviews* (online at [www.mdinsurance.state.md.us/sa/consumer/health-insurance-rate-review.html](http://www.mdinsurance.state.md.us/sa/consumer/health-insurance-rate-review.html)).

<sup>19</sup> *Maryland Offers Glimpse at Obamacare Insurance Math*, *Kaiser Health News* (Apr. 24, 2013) (online at [www.kaiserhealthnews.org/Stories/2013/April/24/maryland-aca-premiums-carefirst-blue-cross.aspx](http://www.kaiserhealthnews.org/Stories/2013/April/24/maryland-aca-premiums-carefirst-blue-cross.aspx)) and *With Health Law Looming, One Insurer Wants a 25% Premium Hike*, *Washington Post* (Apr. 24, 2013) (online at: <http://www.washingtonpost.com/archive/local/2013/04/24/>).

State officials also indicated that the proposed rates were likely to decline after further review, noting that “it is premature to reach any judgment or conclusion based on the rates as proposed” because the state will subject rates to “an even higher scrutiny” before approving or rejecting the rates.<sup>20</sup> The State’s Insurance Commissioner stated that “in Maryland, the premium rate a carrier requests is not always the rate that is granted.”<sup>21</sup>

Reports regarding the Maryland premiums also indicate that robust competition will help avoid the highest premium increases. Blue Cross Blue Shield had initially considered applying for an average rate increase of 50%; however, after becoming “concerned about price levels that were unattractive” to young customers, the insurer cut the average requested rate increase in half to 25%.<sup>22</sup> In addition, two new insurers – Evergreen Health Cooperative and All Savers – will be entering the state insurance market in 2014.<sup>23</sup>

The proposed Maryland premiums also do not factor in the impact of tax credits in reducing costs for purchasers. Over 360,000 Maryland residents are expected to be eligible for these credits.<sup>24</sup>

#### **D. Proposed Premiums in Oregon**

On May 9, 2013, Oregon released proposed rates for plans hoping to participate in the State’s health insurance marketplace. Upon learning of the rates, the vice president of the Atate’s association of insurance agents and brokers said, “I don’t see sticker shock in these

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<http://www.washingtonpost.com/blogs/wonkblog/wp/2013/04/24/with-health-law-looming-one-large-insurer-wants-a-25-percent-premium-hike/>).

<sup>20</sup> *With Health Law Looming, One Insurer Wants a 25% Premium Hike*, Washington Post (Apr. 24, 2013) (online at:

<http://www.washingtonpost.com/blogs/wonkblog/wp/2013/04/24/with-health-law-looming-one-large-insurer-wants-a-25-percent-premium-hike/>) and *Maryland Offers Glimpse at Obamacare Insurance Math*, Kaiser Health News (Apr. 24, 2013) (online at [www.kaiserhealthnews.org/Stories/2013/April/24/maryland-aca-premiums-carefirst-blue-cross.aspx](http://www.kaiserhealthnews.org/Stories/2013/April/24/maryland-aca-premiums-carefirst-blue-cross.aspx)).

<sup>21</sup> Maryland Insurance Administration, *Health Insurance Rate Reviews* (online at [www.mdinsurance.state.md.us/sa/consumer/health-insurance-rate-review.html](http://www.mdinsurance.state.md.us/sa/consumer/health-insurance-rate-review.html)).

<sup>22</sup> *Maryland Offers Glimpse at Obamacare Insurance Math*, Kaiser Health News (Apr. 24, 2013) (online at [www.kaiserhealthnews.org/Stories/2013/April/24/maryland-aca-premiums-carefirst-blue-cross.aspx](http://www.kaiserhealthnews.org/Stories/2013/April/24/maryland-aca-premiums-carefirst-blue-cross.aspx)).

<sup>23</sup> *With Health Law Looming, One Insurer Wants a 25% Premium Hike*, Washington Post (Apr. 24, 2013) (online at: <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/04/24/with-health-law-looming-one-large-insurer-wants-a-25-percent-premium-hike/>).

<sup>24</sup> *361,000 Marylanders Will be Eligible for Health Insurance Tax Credits*, Maryland Business Journal (Apr. 16, 2013) (online at [www.bizjournals.com/baltimore/news/2013/04/16/nearly-361000-marylanders-will-be.html](http://www.bizjournals.com/baltimore/news/2013/04/16/nearly-361000-marylanders-will-be.html)).

rates.”<sup>25</sup> A spokesman for Blue Cross indicated that the company’s proposed rates were generally within \$50 to \$100 of currently available rates.<sup>26</sup> When they saw the rates proposed by their competitors, two other insurance companies rapidly announced that they would withdraw their rates and propose new, lower rates.<sup>27</sup>

Oregon is the first state with a competitive insurance market to post proposed premiums by age and plan for 2014. This allows for a more detailed analysis of the effects of competition and the new marketplace are on lowering costs and improving benefits. Seven different issuers enroll significant shares of the individual market in Oregon. A staff analysis of the proposed rates for silver and bronze plans in the Oregon marketplace reveals:

- The average consumer currently enrolled in a bronze-comparable plan would see a rate decrease of 11%, saving the consumer \$470 annually when staying with the same insurer. The average consumer currently enrolled in a silver-comparable plan would see a rate decrease of 7%, saving the consumer \$350 annually when staying with the same issuer.<sup>28</sup>
- Virtually all consumers in the plans age 40 and above and many ages 30 to 39 would see rate decreases in 2014 if they remain with their current insurer, even before tax credits. For most customers age 40 and over, the rate decreases will be between 10% and 40%.
- Virtually all purchasers will have the option of switching to a lower-cost plan. Under the Affordable Care Act, consumers can use the new health insurance exchanges to switch easily to a new insurer while still maintaining key benefits and protections. This provides an opportunity for consumers to save money by shopping for the plans with the lowest premiums or best benefits for them. On average, current purchasers in Oregon could reduce their premium by an average of 32%, saving \$1,370 annually, by switching from their current bronze-comparable plan to the lowest cost bronze plan in 2014. Current purchasers of silver-comparable plans could reduce their premiums by an average of 24%, saving \$1,200 per year, by switching to the lowest cost silver plan in 2014. In both cases, consumers would be paying lower premiums and receiving higher quality coverage.

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<sup>25</sup> *Competition Spurs Oregon Insurers to Lower Proposed Rates*, Kaiser Health News (May 10, 2013) (online at [capsules.kaiserhealthnews.org/index.php/2013/05/competition-spurs-oregon-insurers-to-lower-proposed-rates/](http://capsules.kaiserhealthnews.org/index.php/2013/05/competition-spurs-oregon-insurers-to-lower-proposed-rates/)).

<sup>26</sup> *Id.*

<sup>27</sup> *Two Oregon Insurers Rethink 2014 Premiums as State Posts First-ever Rate Comparison*, The Oregonian (May 9, 2013) (online at [http://www.oregonlive.com/health/index.ssf/2013/05/two\\_oregon\\_insurers\\_reconsider.html](http://www.oregonlive.com/health/index.ssf/2013/05/two_oregon_insurers_reconsider.html)).

<sup>28</sup> The staff analysis was conducted by comparing the proposed premiums for 2014 silver and bronze plans in Washington with currently available premiums for plans of comparable actuarial values and out of pocket limits.

## **E. Proposed Premiums in Washington**

On May 14, 2013, the State of Washington published proposed rates for plans hoping to offer coverage in the State's new health insurance marketplace. Popular plans in the State indicated that their rates would, even for younger people, decline or stay stable for most in the market. One insurer whose Chief Executive Officer had previously predicted that rates would rise 50% to 70% instead proposed to reduce its rate for a healthy 21-year-old man by 15%, while also lowering the deductible and instituting the new consumer protections required under the Affordable Care Act.<sup>29</sup>

A staff analysis of the proposed rates for silver and bronze plans in Washington reveals:

- The average consumer currently enrolled in a bronze-comparable plan would see a rate decrease of 21%, saving the consumer \$1,120 annually when staying with the same insurer. The average consumer currently enrolled in a silver-comparable plan would see a rate decrease of 25%, saving the consumer \$1,880 annually when staying with the same issuer.
- For customers enrolled in the bronze- and silver-comparable plans, virtually all of those age 30 and above and many ages 21 to 29 would see rate decreases, even before tax credits. For most customers age 30, the rate decreases will be between 4% and 60%.
- Virtually all purchasers will have the option of switching to a lower-cost plan. Under the Affordable Care Act, consumers can use the new health insurance marketplaces to switch easily to a new insurer while still maintaining key benefits and protections. This provides an opportunity for consumers to save money by shopping for the plans with the lowest premiums or best benefits for them. On average, current purchasers in Washington could reduce their premium by an average of 33% by switching from their current bronze-comparable plan to the lowest cost bronze plan, saving \$1,750 annually. Current purchasers of silver-comparable plans could reduce their premiums by an average of 36% by switching to the lowest cost silver plan, saving nearly \$2,700 per year. In both cases, consumers would be paying lower premiums and receiving higher quality coverage.

## **III. CONCLUSION**

The questions surrounding premiums in the individual market in 2014 have attracted considerable attention and generated some dire predictions of dramatically higher premiums resulting in "rate shock." The actual proposed rates in the first five states to publish the rates do not support these dire predictions. In fact, they show that consumers will have access to better health insurance at a lower cost under the Affordable Care Act.

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<sup>29</sup> *Some May See Lower Rates Under Obama Health Law*, Seattle Times (May 14, 2013) (online at [seattletimes.com/html/localnews/2020982752\\_apwahealthoverhaulwash1stldwritethru.html](http://seattletimes.com/html/localnews/2020982752_apwahealthoverhaulwash1stldwritethru.html)).